MAKHUDUTHAMAGA LOCAL MUNICIPALITY

(Municipal demarcation code LIM473)

ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30/06/2012

General Information

Legal form of entity	Local municipality
Nature of business and principal activities	Provision of municipal quality services and maintaining the best interests of the local community in the Makhuduthamaga area
Mayor	Cllr Matlala M.A
Executive Councillors	Cllr Mampane M.A Cllr Lerobane M.P Cllr Masemola H.R Cllr Madiba M.F Cllr Mndebele M.E Cllr Matjomane N.M Cllr Makaleng M.M Cllr Maisela K.R Cllr Tala M.A
Grading of local authority	Low capacity municipality
Accounting Officer	Moropa M.E
Chief Finance Officer (CFO)	Diale D.S
Postal address	Private Bag x 434 Jane Furse 1085
Bankers	ABSA Bank Limited
Auditors	Auditor General

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The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

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Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DME	Department of Minerals and Energy
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practices (GRAP).

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2013 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The annual financial statements set out on pages 6 to 49, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2012 and were signed on its behalf by:

Municipal Manager

Draft Audit Committee Report

We are pleased to present our report for the financial year ended 30/06/2012.

Audit committee members and attendance

The audit committee consists of the members listed hereunder and should meet 4 times per annum as per its approved terms of reference. During the current year 6 meetings were held.

Name of member	Number of meetings attended
Ntwampe R.G (Chairperson)	6
Mashala K.E	3
Nekhavhambe S.B	6
Gafane L.A.T (Appointed 15 December 2011)	0
Chuene V.K (Appointed 15 December 2011)	3

Audit committee responsibility

We report that we have adopted appropriate formal terms of reference in our charter in line with the requirements of section 166(2)(a) of the MFMA. We further report that we have conducted our affairs in compliance with this charter.

The effectiveness of internal control

The system of internal controls applied by the municipality over financial and risk management is effective, efficient and transparent. In line with the MFMA and the King III Report on Corporate Governance requirements, Internal Audit provides the Audit Committee and management with assurance that the internal controls are appropriate and effective. This is achieved by means of the risk management process, as well as the identification of corrective actions and suggested enhancements to the controls and processes. From the various reports of the Internal Auditors, it was noted that no matters were reported that indicate any material deficiencies in the system of internal control or any deviations there from. Accordingly, we can report that the system of internal control over financial reporting for the period under review was efficient and effective.

We are satisfied with the content and quality of monthly and quarterly reports prepared and issued by the auditors of the municipality during the year under review.

Evaluation of annual financial statements

We have:

- Reviewed changes in accounting policies and practices;
- Reviewed the entities compliance with legal and regulatory provisions;

Internal audit

We are satisfied that the internal audit function is operating effectively and that it has addressed the risks pertinent to the municipality and its audits.

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Chairperson of the Audit Committee

Date: ______________________

Accounting Officer's Report

The accounting officer submits his report for the year ended 30/06/2012.

1. Review of activities

Main business and operations

The municipality is an investment and management entity with trading controlled entities engaged in provision of municipal quality services and maintaining the best interests of the local community in the Makhuduthamaga area. The municipality operates principally in South Africa.

Net surplus of the municipality was R 52,905,813 (2011: surplus R 40,974,497).

2. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

4. Accounting policies

The annual financial statements prepared in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

5. Accounting Officer

The accounting officer of the municipality during the year and to the date of this report is as follows:

Name	Nationality
ME Moropa	South African

6. Bankers

The municipality banks primarily with ABSA Bank Limited.

7. Auditors

The Auditor General will continue in office for the next financial period.

Statement of Financial Position

Figures in Rand	Note(s)	2012	2011
Assets			
Current Assets			
Inventories	4	507,095	477,345
VAT receivable	5	17,856,970	14,254,744
Consumer debtors	6	16,726,389	11,328,463
Cash and cash equivalents	7	80,670,039	74,761,162
		115,760,493	**100,821,714**
Non-Current Assets			
Property, plant and equipment	3	128,988,064	79,394,525
Land Fillsite	9	611,700	-
		129,599,764	**79,394,525**
Total Assets		**245,360,257**	**180,216,239**
Liabilities			
Current Liabilities			
Trade and other payables from exchange transactions	10	26,691,495	19,627,176
Unspent conditional grants and receipts	8	4,638,388	104,000
Provision for Landfill Site	9	639,500	-
		31,969,383	**19,731,176**
Total Liabilities		**31,969,383**	**19,731,176**
Net Assets		**213,390,874**	**160,485,063**
Net Assets			
Accumulated surplus		213,390,874	160,485,063

Statement of Financial Performance

Figures in Rand	Note(s)	2012	2011
Revenue			
Administration and management fees received	14	2,659,309	2,399,160
Government grants & subsidies	13	168,701,612	147,544,476
Interest received	20	10,416,727	5,973,122
Property rates	12	41,358,051	24,906,459
Rental of facilities and equipment		92,511	33,899
Other income	14	703,661	1,219,201
Total Revenue		**223,931,871**	**182,076,317**
Expenditure			
Administration		(6,545,222)	(5,013,348)
Contracted services	23	(5,510,705)	(5,803,750)
Debt impairment	19	(42,746,976)	(28,112,360)
Depreciation and amortisation	21	(6,898,161)	(6,091,250)
General Expenses	15	(49,323,317)	(46,165,085)
Grants and subsidies paid	24	(4,279,906)	(3,260,347)
Personnel	17	(25,671,515)	(21,050,450)
Remuneration of councillors	18	(13,951,429)	(13,496,393)
Repairs and maintenance		(16,098,827)	(12,095,700)
Total Expenditure		**(171,026,058)**	**(141,088,683)**
Surplus for the year		**52,905,813**	**40,987,634**

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	177,960,634	177,960,634
Adjustments		
Prior year adjustments	(58,463,205)	(58,463,205)
Balance at 01/07/2010 as restated	**119,497,429**	**119,497,429**
Changes in net assets		
Surplus for the year	40,987,634	40,987,634
Total changes	40,987,634	40,987,634
Opening balance as previously reported	212,695,616	212,695,616
Adjustments		
Prior year adjustments	(52,210,555)	(52,210,555)
Balance at 01/07/2011 as restated	**160,485,061**	**160,485,061**
Changes in net assets		
Surplus for the year	52,905,813	52,905,813
Total changes	52,905,813	52,905,813
Balance at 30/06/2012	**213,390,874**	**213,390,874**

Cash Flow Statement

Figures in Rand	Note(s)	2012	2011
Cash flows from operating activities			
Receipts			
Cash received from Consumers, Goverment and other sources of revenue		204,485,242	174,825,400
Interest income		10,416,727	5,973,122
		214,901,969	180,798,522
Payments			
Cash paid to suppliers, employees and other related services		(109,132,714)	(106,871,348)
Net cash flows from operating activities	25	**105,769,255**	**73,927,174**
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(100,520,164)	(64,344,270)
Proceeds from sale of property, plant and equipment	3	659,786	-
Net cash flows from investing activities		**(99,860,378)**	**(64,344,270)**
Net increase/(decrease) in cash and cash equivalents		**5,908,877**	**9,582,904**
Cash and cash equivalents at the beginning of the year		74,761,162	65,178,258
Cash and cash equivalents at the end of the year	7	**80,670,039**	**74,761,162**

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

These accounting policies are consistent with the previous period, except for the changes set out in note Changes in accounting policies.

1.1 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables, loans and other receivables

The municipality assesses its trade receivables, loans and other receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, loans and other receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time. .

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 9 - Provisions.

Accounting Policies

1.1 Significant judgements and sources of estimation uncertainty (continued)

Effective interest rate

The municipality used the prime interest rate plus 1% to discount future cash flows.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.2 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet

Accounting Policies

1.2 Property, plant and equipment (continued)

the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Land	Indefinite
Buildings	25 years
Plant and machinery	2 - 10 years
Furniture and fixtures	6 years
Motor vehicles	8 years
Office equipment	3 - 4 years
IT equipment	3 years
Prefabricates culvets	25 years
Concrete kerbing, channeling, chutes and Downpipes	40 years
Mass Earthworks	80 years
Pavement layers	15 years
Prime coat	15 years
Double seals	15 years
Pitching, stonework and protection	15 years
Gabions	25 years
Guardrails	25 years
Road signs	15 years
Road markings	15 years
Concrete block paving for roads	15 years
Concrete for structures	15 years
Street lighting	15 years
High mast lights	15 years
Capital work in progress	Not depreciated

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Depreciation is calculated on a straight line basis from the the time depreciable assets become ready for use.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

1.2 Property, plant and equipment (continued)

Transitional provision

The municipality changed its accounting policy for property, plant and equipment in 2012. The change in accounting policy was made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

According to the transitional provision, the municipality is not required to measure property, plant and equipment for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Property, plant and equipment. Property, plant and equipment has accordingly been recognised at provisional amounts, as disclosed in note 3. The transitional provision expires on 30/06/2012.

In accordance with the transitional provision as per Directive 4 of the GRAP Reporting Framework, where property, plant and equipment was acquired through a transfer of functions, the municipality is not required to measure that property, plant and equipment for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The municipality acquired a transfer(s) of function in 2012 and property, plant and equipment has accordingly been recognised at provisional amounts, as disclosed in note 3.

Until such time as the measurement period expires and property, plant and equipment is recognised and measured in accordance with the requirements of the Standard of GRAP on Property, plant and equipment, the municipality need not comply with the Standards of GRAP on:

- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Property, plant and equipment implies that any associated presentation and disclosure requirements need not be complied with for property, plant and equipment not measured in accordance with the requirements of the Standard of GRAP on Property, plant and equipment.

1.3 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

- subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount, and any impairment loss is recognised in surplus or deficit.

Accounting Policies

1.3 Site restoration and dismantling cost (continued)

A provision is recognised when the entity has a present or constructive obligation as a result of a past event, and it is probable that an otflow of resources embodying economic benefits or services potential will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The provision for rehabilitation is recognised as and when the environmetal liability arises. To the extent that the obligations relate to the assets, they are capitalised as part of the cost of those assets.

1.4 Financial instruments

Classification

The municipality classifies financial assets and financial liabilities into the following categories:

- Loans and receivables
- Financial liabilities measured at amortised cost

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through surplus or deficit, which shall not be classified out of the fair value through surplus or deficit category.

Initial recognition and measurement

Financial instruments are recognised initially when the municipality becomes a party to the contractual provisions of the instruments.

The municipality classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available-for-sale financial assets.

For financial instruments which are not at fair value through surplus or deficit, transaction costs are included in the initial measurement of the instrument.

Regular way purchases of financial assets are accounted for at settlement date.

Subsequent measurement

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

Impairment of financial assets

At each end of the reporting period the municipality assesses all financial assets, other than those at fair value through surplus or deficit, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the municipality, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator of impairment. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and current fair value, less any

Accounting Policies

1.4 Financial instruments (continued)

impairment loss on that financial asset previously recognised in surplus or deficit - is removed from equity as a reclassification adjustment in other comprehensive income and recognised in surplus or deficit.

Impairment losses are recognised in surplus or deficit.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Reversals of impairment losses are recognised in surplus or deficit except for equity investments classified as available-for-sale.

Impairment losses are also not subsequently reversed for available-for-sale equity investments which are held at cost because fair value was not determinable.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

Trade and other receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectable, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other receivables are classified as loans and receivables.

Trade and other payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

Gains and losses

A gain or loss arising from a change in a financial asset or financial liability is recognised as follows:

- A gain or loss on a financial asset or financial liability classified as at fair value through surplus or deficit is recognised in surplus or deficit;

Accounting Policies

1.4 Financial instruments (continued)

- A gain or loss on an available-for-sale financial asset is recognised directly in net assets, through the statement of changes in net assets, until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in net assets is recognised in surplus or deficit; and
- For financial assets and financial liabilities carried at amortised cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, and through the amortisation process.

Derecognition

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the municipality retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the municipality has transferred its rights to receive cash flows from the asset and either
  - has transferred substantially all the risks and rewards of the asset, or
  - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the municipality has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the municipality's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the municipality could be required to repay. Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the municipality's continuing involvement is the amount of the transferred asset that the municipality may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the municipality's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in surplus or deficit.

Impairment of financial assets

The municipality assesses at each statement of financial position date whether a financial asset or group of financial assets is impaired.

Assets are carried at amortised cost.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be

Accounting Policies

1.4 Financial instruments (continued)

recognised in surplus or deficit. The municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

1.5 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Operating leases - lessee

Operating lease payments are recognised as an expense when it becomes probable that the economic benefits or service potential associated with the lease agreement will flow from the municipality to the lessor. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

Accounting Policies

1.6 Inventories

Inventories are initially measured at cost except where inventories are acquired at no cost, or for nominal consideration, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Transitional provision

The municipality changed its accounting policy for inventories in 2012. The change in accounting policy is made in accordance with its transitional provision as per Directive 2 of the GRAP Reporting Framework.

According to the transitional provision, the municipality is not required to measure inventories for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Inventories. Inventories has accordingly been recognised at provisional amounts, as disclosed in note 4. The transitional provision expires on 30/06/2012.

In accordance with the transitional provision as per Directive 2 of the GRAP Reporting Framework, where inventory was acquired through a transfer of functions, the municipality is not required to measure that inventory for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The municipality acquired a transfer(s) of function in 2012 and inventory has accordingly been recognised at provisional amounts, as disclosed in note 4.

Until such time as the measurement period expires and inventory is recognised and measured in accordance with the requirements of the Standard of GRAP on inventory assets, the municipality need not comply with the Standards of GRAP on:
- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),

1.6 Inventories (continued)

- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Inventories implies that any associated presentation and disclosure requirements need not be complied with for inventories not measured in accordance with the requirements of the Standard of GRAP on Inventories.

1.7 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation / (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation / (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

1.7 Impairment of cash-generating assets (continued)

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity

Accounting Policies

1.7 Impairment of cash-generating assets (continued)

estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

1.8 Impairment of non-cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation / (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation / (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Accounting Policies

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:
- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a non-cash-generating asset is the present value of the non-cash-generating asset's remaining service potential.

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction / (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

Accounting Policies

After the recognition of an impairment loss, the depreciation / (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.9 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

1.10 Provisions and contingencies

Provisions are recognised when:
- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Accounting Policies

1.10 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding agreement.

After their initial recognition contingent liabilities recognised in business combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 27.

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount, and account for any impairment loss, in accordance with the amounting policy on impairment of assets as described in accounting policy 1.7 and 1.8.

If the related asset is measured using the revaluation model:

- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
  - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit;
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying

Accounting Policies

1.10 Provisions and contingencies (continued)

amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and net assets. If a revaluation is necessary, all assets of that class is revalued; and

- the Standard of GRAP on Presentation of Financial Statements requires disclosure on the face of the statement of changes in net assets of each item of revenue or expense that is recognised directly in net assets. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability is separately identified and disclosed as such.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

Transitional provision

The municipality changed its accounting policy for provisions, contingent liabilities and contingent assets in 2012. The change in accounting policy is made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

In accordance with the transitional provision as per Directive 4 of the GRAP Reporting Framework, where provisions, contingent liabilities and contingent assets was acquired through a transfer of functions, the municipality is not required to measure that provisions, contingent liabilities and contingent assets for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The municipality acquired a transfer(s) of function in 2012 and provisions, contingent liabilities and contingent assets has accordingly been recognised at provisional amounts, as disclosed in note 9.

Until such time as the measurement period expires and provisions, contingent liabilities and contingent assets is recognised and measured in accordance with the requirements of the Standard of GRAP on Provisions, contingent liabilities and contingent assets, the municipality need not comply with the Standards of GRAP on:

- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Provisions, contingent liabilities and contingent assets implies that any associated presentation and disclosure requirements need not be complied with for provisions, contingent liabilities and contingent assets not measured in accordance with the requirements of the Standard of GRAP on Provisions, contingent liabilities and contingent assets.

1.11 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Accounting Policies

1.11 Revenue from exchange transactions (continued)

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:
- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by the proportion that costs incurred to date bear to the total estimated costs of the transaction.

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends is recognised when:
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

Accounting Policies

1.12 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Rates, including collection charges and penalties interest

Revenue from rates, including collection charges and penalty interest, is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- there has been compliance with the relevant legal requirements.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

Fines

Revenue from the issuing of fines is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

The municipality has two types of fines: spot fines and summonses. There is uncertainty regarding the probability of the flow of economic benefits or service potential in respect of spot fines as these fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable. In respect of summonses the public prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender. An estimate is made for the revenue amount collected from spot fines and summonses based on past experience of amounts collected. Where a reliable estimate cannot be made of revenue from summonses, the revenue from summonses is recognised when the public prosecutor pays over to the entity the cash actually collected on summonses issued.

Accounting Policies

Levies

Levies are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

Levies are based on declarations completed by levy payers. The estimate of levies revenue when a levy payer has not submitted a declaration are based on the following factors:

- the extent and success of procedures to investigate the non-submission of a declaration by defaulting levy payers;
- internal records maintained of historical comparisons of estimated levies with actual levies received from individual levy payers;
- historical information on declarations previously submitted by defaulting levy payers; and
- the accuracy of the database of levy payers as well as the frequency by which it is updated for changes.

Changes to estimates made when more reliable information becomes available are processed as an adjustment to levies revenue.

Government grants

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, which-ever is earlier.

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

Other grants and donations

Other grants and donations are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

1.13 Turnover

Turnover comprises of sales to customers and service rendered to customers. Turnover is stated at the invoice amount and is exclusive of value added taxation.

Accounting Policies

1.14 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.15 Comparative Information

When the presentation or classification of items in the annual financial statement are amended, prior period comparative amounts are restated. The nature and reason for the reclassification is disclosed. Where accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable , and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

1.16 Unauthorised expenditure

Unauthorised expenditure means:
- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.17 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.18 Irregular expenditure

Irregular expenditure as defined in section 1 of the MFMA is:

(a) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of this Act, and which has not been condoned in terms of section 170;

(b) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the Municipal Systems Act, and which has not been condoned in terms of that Act;

(c) expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Public Office-Bearers Act, 1998 (Act No. 20 of 1998); or

(d) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the supply chain management policy of the municipality or entity or any of the municipality's by-laws giving effect to such policy, and which has not been condoned in terms of such policy or by-law, but excludes expenditure by a municipality which falls within the definition of "unauthorised expenditure".

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Accounting Policies

1.18 Irregular expenditure (continued)

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

1.19 Use of estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.20 Presentation of currency

These annual financial statements are presented in South African Rand.

1.21 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP

1.22 Investments

Where the carrying amount of an investment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the Statement of Financial Performance.

1.23 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

Accounting Policies

1.24 Budget information

Municipalities are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipalities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The annual financial statements and the budget are not on the same basis of accounting therefore a reconciliation between the statement of financial performance and the budget have been included in the annual financial statements. Refer to note 35.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01/07/2012 or later periods:

2.2 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the municipality's accounting periods beginning on or after 01/07/2012 or later periods but are not relevant to its operations:

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

3. Property, plant and equipment

	2012			2011		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Land	200,000	-	200,000	-	-	-
Buildings	15,846,028	(3,211,386)	12,634,642	13,758,105	(2,629,373)	11,128,732
Furniture and fixtures	1,929,026	(811,966)	1,117,060	2,729,045	(1,055,424)	1,673,621
Motor vehicles	7,403,848	(3,204,238)	4,199,610	7,657,055	(4,516,448)	3,140,607
Office equipment	997,454	(465,912)	531,542	977,078	(327,020)	650,058
IT equipment	3,291,823	(1,165,686)	2,126,137	3,528,336	(1,085,045)	2,443,291
Infrastructure	66,159,088	(10,822,598)	55,336,490	54,185,202	(6,765,916)	47,419,286
Loose tools	758,474	(170,830)	587,644	507,891	(37,693)	470,198
Capital work in progress	52,254,939	-	52,254,939	12,468,732	-	12,468,732
Total	**148,840,680**	**(19,852,616)**	**128,988,064**	**95,811,444**	**(16,416,919)**	**79,394,525**

Reconciliation of property, plant and equipment - 2012

	Opening balance	Additions	Disposals	Other changes, movements	Depreciation	Total
Land	-	200,000	-	-	-	200,000
Buildings	11,128,732	2,087,924	-	-	(582,014)	12,634,642
Furniture and fixtures	1,673,621	372,360	(514,782)	-	(414,139)	1,117,060
Motor vehicles	3,140,607	2,860,547	(896,345)	-	(905,199)	4,199,610
Office equipment	650,058	130,713	(63,809)	-	(185,420)	531,542
IT equipment	2,443,291	741,596	(449,337)	-	(609,413)	2,126,137
Infrastructure	47,419,286	11,974,383	-	-	(4,057,179)	55,336,490
Loose tools	470,198	342,353	(80,109)	-	(144,798)	587,644
Capital work in progress	12,468,732	52,994,355	-	(13,208,148)	-	52,254,939
	79,394,525	**71,704,231**	**(2,004,382)**	**(13,208,148)**	**(6,898,162)**	**128,988,064**

Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Depreciation	Total
Buildings	10,024,436	1,603,500	(499,204)	11,128,732
Furniture and fixtures	1,859,271	187,069	(372,719)	1,673,621
Motor vehicles	4,476,623	-	(1,336,016)	3,140,607
Office equipment	421,319	349,239	(120,500)	650,058
IT equipment	686,793	2,096,247	(339,749)	2,443,291
Infrastructure	49,728,397	1,079,269	(3,388,380)	47,419,286
Loose tools	17,786	487,093	(34,681)	470,198
Capital work in progress	1,456,920	11,011,812	-	12,468,732
	68,671,545	**16,814,229**	**(6,091,249)**	**79,394,525**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

3. Property, plant and equipment (continued)

UNBUNDLING OF INFRASTRUCTURE ASSETS

During the year ended 30 June 2012, the municipaity performed the unbundling of insfrastrudture assets, with restrospective from 01 July 2009. The impact on accounts balances are as follows:

The comparative figures has been restated as follows:

Depreciation	-	85,063

Accumulated Deprectaion	-	407,168
Property, Plant and Equipment	-	51,718,324
Net effect on Accumulated surplus opening balance	**-**	**52,125,492**

Unbundling of infrastucture assets was performed during the year by the qualified engineer from Nemurango Consulting Engineers. The gross replacement principle was applied in the components of infrastructure.

The unbundling was done effective from 01 July 2009, to ensure compliance with GRAP 17

4. Inventories

Consumable stores	507,095	477,345

5. VAT receivable

VAT	17,856,970	14,254,744

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

6. Consumer debtors

Gross balances		
Rates	82,810,854	42,007,052
Less: Provision for debt impairment		
Rates	(66,084,465)	(30,678,589)
Net balance		
Rates	16,726,389	11,328,463
Rates		
Current (0 -31 days)	5,398,908	5,718,629
32 - 61 days	3,600,163	1,995,390
62 - 91 days	3,752,449	1,827,956
92 - 121 days	3,974,869	1,786,488
	16,726,389	**11,328,463**
Reconciliation of debt impairment provision		
Balance at beginning of the year	(30,678,589)	(2,566,229)
Contributions to provision	(35,405,876)	(28,112,360)
	(66,084,465)	**(30,678,589)**

Consumer debtors past due but not impaired

Consumer debtors which are less than 3 months past due are not considered to be impaired. At 30/06/2012, R 11 327482 (2011: R 5,609,833) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	3,600,163	1,995,390
2 months past due	3,752,450	1,827,955
3 months past due	3,974,869	1,786,488

Consumer debtors impaired

As of 30/06/2012, consumer debtors of R 65 602 630 (2011: R (30,678,589)) were impaired and provided for.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

7. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	435	618
Bank balances	80,669,604	74,760,544
	80,670,039	**74,761,162**

The municipality had the following bank accounts

Account number / description	Bank statement balances		Cash book balances	
	30/06/2012	30/06/2011	30/06/2012	30/06/2011
ABSA Bank - 4069702429 - Call account	61,881,811	60,050,344	61,881,811	60,050,344
ABSA Bank - 4063761912 - Traffic cheque account	15,144,338	13,072,090	15,144,338	13,068,266
ABSA Bank - 4050384145 - Primary cheque account	3,212,454	2,368,477	2,454,961	1,591,409
ABSA Bank - 4076690079 - Salaries bank account	1,671,389	515,292	1,188,495	50,525
Total	**81,909,992**	**76,006,203**	**80,669,605**	**74,760,544**

8. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Municipal Infrastructure Grant	4,030,388	-
Expanded Public Works Programme (Dep't of Public Works) Incentive Grant	608,000	104,000
	4,638,388	**104,000**

Movement during the year

Balance at the beginning of the year	104,000	11,299,501
Additions during the year	4,638,388	104,000
Income recognition during the year	(104,000)	(11,299,501)
	4,638,388	**104,000**

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note 13 for reconciliation of grants from Provincial Government.

These amounts are invested in a ring-fenced investment until utilised.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

9. Provision for Landfill Site

Reconciliation of provisions - 2012

	Opening Balance	Additions	Total
Environmental rehabilitation	-	639,500	639,500

Provision is made in terms of the entity's licensing stipulations of the waste landfill site, for the estimated cost of rehabilitation of waste sites. The provision has been determined on the basis of a recent independent study conducted. The cost factors were derived from a study by a firm of consulting engineers as determined by the relevant associations has been used in estimating provision for environmental rehabilitation

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

10. Trade and other payables from exchange transactions

Trade payables	21,333,112	13,461,182
Creditor: Ward committee	13,814	5,000
Accrued leave pay	-	1,351,566
Accruals	5,302,925	4,800,217
Deposits received	41,644	9,211
	26,691,495	**19,627,176**

11. Revenue

Property rates	41,358,051	24,906,459
Rental of facilities & equipment	92,511	33,899
Government grants & subsidies	168,701,612	147,544,476
	210,152,174	**172,484,834**

The amount included in revenue arising from exchanges of goods or services are as follows:

Rental of facilities & equipment	92,511	33,899

The amount included in revenue arising from non-exchange transactions is as follows:

Property rates	41,358,051	24,906,459
Government grants & subsidies	168,701,612	147,544,476
	210,059,663	**172,450,935**

12. Property rates

Rates received

Residential	41,358,051	24,906,459

Valuations

Commercial	396,496,000	259,138,000
Municipal	19,100,000	15,754,300
Residential	232,390,000	214,316,400
Social	26,280,000	33,537,000
State	1,054,269,000	652,980,000
	1,728,535,000	**1,175,725,700**

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2009. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

The new general valuation was implemented on 01 July 2011.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

13. Government grants and subsidies

Equitable share	126,283,000	111,893,476
Municipal Infrastructure Grant	30,128,612	28,401,000
Financial Management Grant	1,500,000	1,500,000
Municipal Systems Improvement Program Grant	790,000	750,000
Integrated National Electrification Program Grant	10,000,000	5,000,000
	168,701,612	**147,544,476**

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

Municipal Infrastructure Grant

Balance unspent at beginning of year	-	11,243,930
Current-year receipts	34,159,000	28,401,000
Conditions met - transferred to revenue	(30,128,612)	(28,401,000)
2010/11 MIG received in advance	-	(11,243,930)
	4,030,388	-

Conditions still to be met - remain liabilities (see note 8)

Financial Management Grant

Balance unspent at beginning of year	-	42,051
Current-year receipts	1,500,000	1,500,000
Conditions met - transferred to revenue	(1,500,000)	(1,500,000)
Reverted to National Treasury	-	(42,051)
	-	-

Conditions still to be met - remain liabilities (see note 8)

Municipal Systems Improvement Program Grant

Balance unspent at beginning of year	-	13,520
Current-year receipts	790,000	750,000
Conditions met - transferred to revenue	(790,000)	(750,000)
Reverted to National Treasury	-	(13,520)
	-	-

Conditions still to be met - remain liabilities (see note 8)

Integrated National Electrification Programme Grant

Current-year receipts	10,000,000	5,000,000

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

13. Government grants and subsidies (continued)

Conditions met - transferred to revenue	(10,000,000)	(5,000,000)
	-	-

All conditions to the Integrated National Electrification Programme Grant were met during the year.

Expanded Public Works Programme Incentive Grant

Balance unspent at beginning of year	104,000	-
Current-year receipts	608,000	104,000
Conditions met - transferred to revenue	(104,000)	-
	608,000	**104,000**

Conditions still to be met - remain liabilities (see note 8)

Changes in level of government grants

Based on the allocations set out in the Division of Revenue Act, no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

14. Other income

Administration and management fees received - third party	2,659,309	2,399,160
Sundry Income	703,661	1,219,201
	3,362,970	**3,618,361**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

15. General expenses

Advertising	1,023,700	788,786
Assets expensed	5,105,308	19,501,459
Auditors remuneration	1,886,403	1,218,993
Bank charges	97,497	97,698
Cleaning	590,382	371,399
Conferences and seminars	78,030	273,930
Consulting and professional fees	2,743,306	4,399,721
Delivery expenses	6,600	-
Donations	92,312	989,157
Electricity	420,865	633,161
Entertainment	125,636	481,784
Fuel and oil	657,636	474,882
General expenses	15,891,203	583,320
IT expenses	165,925	340,539
Insurance	451,026	350,396
Lease rentals on operating lease	321,909	260,679
Marketing	299,960	161,652
Motor vehicle expenses	18,143	341,083
Postage and courier	9,935	43,318
Printing and stationery	679,685	706,066
Promotions and sponsorships	1,356,749	1,539,832
Protective clothing	27,574	-
Publications	371,610	491,361
Security (Guarding of municipal property)	10,082,744	7,274,474
Subscriptions and membership fees	505,019	264,664
Telephone and fax	379,092	356,080
Traditional leader support	95,250	33,400
Training	3,696,826	2,529,495
Travel - local	2,142,992	1,657,756
	49,323,317	**46,165,085**

16. Operating surplus

Operating surplus for the year is stated after accounting for the following:

Operating lease charges		
Lease rentals on operating lease		
• Contractual amounts	321,909	260,679
Depreciation on property, plant and equipment	6,898,161	6,091,250
Employee costs	39,622,944	34,546,843

17. Employee related costs

Basic	13,852,534	10,212,286
Bonus	1,003,898	195,403
Medical aid - company contributions	1,163,165	661,975

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
17. Employee related costs (continued)		
UIF	119,718	104,273
SDL	184,545	164,657
Leave pay provision charge	274,388	156,341
Post-employment benefits - Pension - Defined contribution plan	2,821,155	2,238,766
Overtime payments	173,358	175,617
Car allowance	3,095,809	2,617,112
Housing benefits and allowances	600,661	396,100
Clothing Allowance	12,084	7,249
Cellphone allowance & costs	574,321	498,619
	23,875,636	**17,428,398**

Remuneration of municipal manager

Annual Remuneration including benefits and allowances	955,169	889,352

Remuneration of chief finance officer

Annual Remuneration including benefits and allowances	867,558	816,000

Director corporate and human resources (corporate services)

Annual Remuneration including benefits and allowances	710,370	638,900

Director health, safety and social services (emergency management services)

Annual Remuneration including benefits and allowances	719,721	638,900

Director procurements and infrastructure (planning, transport and environmental affairs)

Annual Remuneration including benefits and allowances	703,378	638,900

18. Remuneration of councillors

Mayor	633,858	362,756
Speaker	437,779	274,271
Mayoral Committee Members	3,299,821	1,605,327
Councillors	5,694,092	5,707,925
Councillors' pension contribution	1,004,900	1,450,915
Allowances	2,752,712	3,839,146
Travel claims	77,146	188,647
Skills Development Levy	50,621	44,486
	13,951,429	**13,473,473**

In-kind benefits

The Department of Local Government provided the municipality with an Accountant Resident who was still in service in year under review.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

19. Debt impairment

Contributions to debt impairment provision	42,746,976	28,112,360

20. Investment revenue

Interest revenue		
Bank and investments	3,671,638	3,048,256
Interest charged on trade and other receivables	6,745,089	2,924,866
	10,416,727	**5,973,122**

21. Depreciation and amortisation

Property, plant and equipment	6,898,161	6,091,250

22. Auditors' remuneration

Fees	1,886,403	1,218,993

23. Contracted services

Information Technology Services	-	136,959
Specialist Services	152,203	1,349,281
Other Contractors	5,358,502	4,317,510
	5,510,705	**5,803,750**

24. Grants and subsidies paid

Other subsidies		
Indigent grants	4,279,906	3,260,347

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

25. Cash generated from operations

Surplus	52,905,813	40,987,634
Adjustments for:		
Depreciation	6,898,161	6,091,250
Debt impairment	42,746,976	28,112,360
Movements in provisions	639,500	688,504
Changes in working capital:		
Inventories	(29,750)	(363,125)
Consumer debtors	(5,397,926)	2,806,342
Trade and other payables from exchange transactions	7,064,319	10,520,722
VAT	(3,602,226)	(3,721,012)
Unspent conditional grants and receipts	4,544,388	(11,195,501)
	105,769,255	**73,927,174**

26. Commitments

Authorised operating and capital expenditure

Operational expenditure		
• Approved and contracted	3,665,023	4,160,705
• Approved but not yet contracted	-	-
	3,665,023	**4,160,705**

Capital expenditure		
• Property, plant and equipment	20,097,891	10,858,706
• Investment property	-	-
	20,097,891	**10,858,706**

The municipality still has future commitments to service providers for services still to be rendered. The minimum payments still due to the service providers at 30 June 2012 amount to R23 762 914 for capital commitments..

27. Contingencies

There are no litigations in process against the municipality for the year under review

28. Related parties

Relationships	
Councillors and members of key management	Refer to General Information page for detail on councillors and key management.

Remuneration of senior management, and councillors is disclosed in note 17 and note 18 respectively.

29. Prior period errors

Accruals (2011: R8 525 595), *capital commitments were incorrectly accrued in the privous year and have been* retrospectively reclassified.

The correction of the errors results in adjustments as follows:

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

29. Prior period errors (continued)

Work in progress	-	(7,820,846)
VAT Input	-	(704,749)
Accruals	-	8,525,595
	-	-

30. Risk management

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

31. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

32. Unauthorised expenditure

Unauthorised expenditure	903,612	-

The municipality had no unauthorised expenditure for the year under review.

33. Fruitless and wasteful expenditure

Fruitless and wasteful expenditure	2,338	3,914

The above fruitless and wasteful expenditure relates to penalties and interest levied from supplier to whom payments

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

33. Fruitless and wasteful expenditure (continued)
were not made on time.

34. Irregular expenditure

	2012	2011
Add: Irregular Expenditure - current year	1,673,574	17,854,680
	1,673,574	**17,854,680**

Analysis of expenditure awaiting condonation per age classification

	2012	2011
Current year	1,673,574	17,854,680

Details of irregular expenditure – current year

Incident	**Management response**	
Integrated National Electrification Programme (Municipal) Grant	Irregular expenditure in the current year relates to expenditure that was incurred against the provisions of section 84(1)(c) of the Municipal Structures Act which vests the function of bulk supply of electricity (including the transmission, distribution and generation of electricity) in district municipalities. Contrary to the Act, the municipality used the equitable share for provision of electricity.	1,673,574

Figures in Rand	2012	2011

35. Reconciliation between budget and statement of financial performance

Reconciliation of budget surplus/deficit with the surplus/deficit in the statement of financial performance:

Net surplus per the statement of financial performance	**52,905,813**	**40,987,634**
Adjusted for:		
Property rates	85,696	105,443
Investment revenue	(1,215,937)	(3,198,829)
Transfers recognised	5,578,388	524
Other own revenue	2,885,269	14,039,911
Employee costs	1,549,043	(4,791,994)
Remuneration of councillors	(5,782,354)	46,399
Depreciation & asset impairment	4,190,484	(1,813,386)
Finance charges	(12,502)	(108,033)
Transfers and grants	-	760,347
Other expenditure	39,075,868	38,002,896
Net surplus per approved budget	**99,259,768**	**84,030,912**

36. Additional disclosure in terms of Municipal Finance Management Act

Audit fees

Amount paid - previous years	1,882,303	1,218,993

Pension and Medical Aid Deductions

Current year subscription / fee	3,984,320	2,238,766
Amount paid - current year	(3,984,320)	(2,238,766)
	-	-

VAT

VAT receivable	17,856,970	14,254,744

VAT output payables and VAT input receivables are shown in note .

All VAT returns have been submitted by the due date throughout the year.

Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the Municipal Manager and noted by Council.

Deviations occurred in the current year in respect of procurements of over R 2 000 for which it is required, in terms of the Treasury Regulations, that the municipalty obtain quotations from at least three prospective suppliers that are registered on the list prospective suppliers prior to selecting sources of procurement. Approval for the transactions concerned was obtained as described above.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

37. Actual operating expenditure versus budgeted operating expenditure

Refer to Appendix D for the comparison of actual operating expenditure versus budgeted expenditure.